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THE BUSINESS REVIEW

FEDERAL RESERVE BANK OF PHILADELPHIA

THE BUSINESS ENVIRONMENT FOR BANK LENDING

by Alfred H. Williams

Despite gloomy forebodings, business activity is likely to continue at a high level for the rest of 1952.

Rising defense expenditures, a record volume of business capital expenditures, and a large flow of income are major factors supporting business activity. On the other hand, a high level of personal savings, inventory liquidation, and restrictions on credit, materials, prices, and wages are factors tending to curb expansion.

A major factor in the business outlook is the defense program—whether expenditures rise as rapidly as planned, and whether it will be financed on a "pay-as-we-go" basis.

CURRENT TRENDS

Business activity in the Third District showed little change in February. Department store sales were steady, and the value of construction contracts awarded declined.

Business loans of weekly reporting banks increased.

THE BUSINESS ENVIRONMENT FOR BANK LENDING*

by Alfred H. Williams, President
Federal Reserve Bank of Philadelphia

One of the best clues as to what is likely to happen in the future is what has actually happened in the recent past. As background for appraising business prospects for the rest of 1952, I shall analyze developments since mid-1950 when war in Korea broke out. It was then that the United States embarked on its third major rearmament program in the last thirty-five years. In the twenty-one months that have elapsed since then, national defense has been directly and indirectly the dominant influence on business.

The period divides itself, insofar as business is concerned, into two distinct phases: the first—lasting nine months—was characterized by a wave of inflation, generated primarily by speculative reactions of consumers and businessmen; the second—twelve months in length—was marked by uneasy or precarious stability, resulting from highly divergent forces that largely counteracted each other. If we consider in some detail each of these periods, we shall be in better position to understand the economic forces that are now at work and likely to be at work in the immediate future.

A NINE MONTHS' SPENDING SPREE

The first nine months following the outbreak of hostilities in Korea were characterized by a marked increase in spending by consumers and businessmen. The serious turn in the international situation touched off a wave of buying that practically swamped the stores. Department store sales jumped 20 per cent in one month. People rushed to stock up on goods they thought would become scarce. Sales of automobiles, household appliances, radios, television sets, hosiery, shoes, towels, sheets, etc., soared. In the second quarter of 1950, consumer purchases of durable goods were at an annual rate of $26.6 billion; by the third quarter the rate was $34.3 billion.

This first buying wave soon subsided. Within three months, consumer purchases had returned to a more normal level; but people were still "jittery." Chinese intervention in Korea in late November 1950 touched off another spending spree. Again people surged into the stores to stock up on items they were afraid would soon become scarce. This wave of buying was not as heavily concentrated in durable goods. By February 1951, scare buying once more began to subside.

Businessmen as well as consumers were anxious to build up their stocks. Manufacturers began to "stockpile" scarce raw materials, and frantic bidding pushed prices up rapidly. Wholesalers and retailers also tried to build up their inventories, especially of "scarce" items. Large orders were placed for future delivery. Manufacturers and traders added about $13 billion to their inventories during this nine-month period. The major part of the increase was in manufacturers' stocks of raw materials, and reflected both larger physical volume and higher prices.

Business firms also stepped up their outlays for new plant and equipment. In large part, the increase was in defense and defense-related industries. The housing boom also gained momentum, and new starts for the year set an all-time record. The building boom stimulated industries supplying building materials, home furnishings, and home appliances. Private industry was humming.

The Government did not directly contribute to inflation during this period. The small increase in defense expenditures was more than offset by a decrease in nondefense spending. In addition, the Federal Government had a small cash surplus in 1950—the fourth since 1930. By taking in more funds through taxation than it paid out in meeting its expenditures, the Government reduced slightly the amount of money at the disposal of the public. These reduced expenditures and the small cash surplus were anti-inflationary rather than inflationary influences.

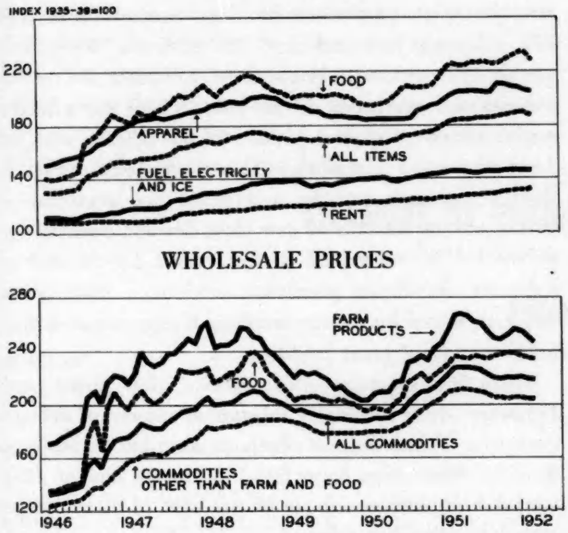
Now let's take a look at what happened to prices. Prices, you know, act as a barometer; they reflect on the one hand the pressure of the volume of spending, and on the other the amount of goods available for purchase.

* An address delivered at the Pennsylvania Banker's Association Lending Conference, Harrisburg, Pa., April 8, 1952.

Industry tried hard to respond to the huge demands of consumers and business for goods and services. Production increased, but not enough. Both wholesale and consumer prices were forced up rapidly. Prices of many raw materials soared, and wholesale prices rose more rapidly than retail. The price barometer registered too much spending and too few goods.

CONSUMER AND WHOLESALE PRICES
(Monthly)

CONSUMER PRICES



What made these spending booms possible? First, there was a plentiful supply of spending money. Personal and business incomes after taxes were rising. This was the major source of purchasing power. Incomes were supplemented by an unprecedented expansion of credit. Practically all types of credit were available on easy terms. Government securities, in particular, were a ready source of funds for lenders and others, as long as the Federal Reserve System stood ready to buy these securities at pegged prices. In addition, there was a large supply of other liquid assets such as Savings Bonds and savings deposits which could be converted into cash.

Second, people believed there were good reasons for spending their money. The most important perhaps was the fear that the defense program would soon bring shortages of certain types of civilian goods. Memories of World War II shortages were still fresh in our minds. This fear was intensified because our economic machine was already operating at about full blast when the large defense program was launched. The fear of shortages was reinforced by a fear of higher prices. The incentive was strong, therefore, to buy while goods were still available and before prices rose. Finally, a spirit of general optimism about the business outlook had emerged. The quick recovery from the recession of 1949 tended to dispel the fear that a major post-war depression was just around the corner. So much for the nine months of scare buying and inflation.

A YEAR OF STABILITY

We then entered a period of uncertainty and apprehension. Would we have more inflation or would business lag while we digested our heavy stocks of goods? As we look back, the past year was, in reality, one of stability; but it was not a stability arising from few changes. Rather, it was one of precarious stability, with strong upward and downward pressures largely offsetting each other.

Now let's turn to a brief survey of the significant developments in the three major sectors of the economy—consumer, business, and Government.

Consumer Spending Up Moderately

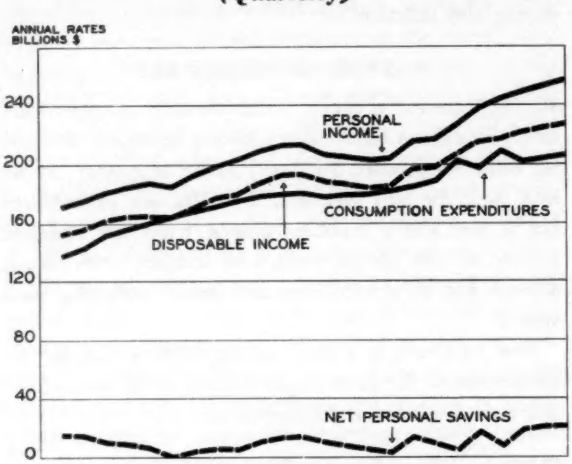
Consumers spent more for all types of goods and services during the last twelve months than in the preceding year. They spent less for durable goods but considerably more for soft goods and services. Despite an increase in expenditures, however, consumers were able to save more because of rising incomes.

Consumers bought a smaller quantity of durable goods, such as motor cars, television sets, and household appliances. After declining in the second quarter of last year, purchases of durable goods leveled off and then remained stable. Total purchases for 1951 were $2.4 billion below 1950. A "shortage of shortages" dispelled the fears that had stimulated two waves of scare buying. Then, too, people were using up some of the heavy stocks they had acquired. Purchases of nondurable goods, however, after declining in the second quarter, resumed the general upward trend. Consumers spent nearly $10 billion more for soft goods in 1951 than in the year before. They also spent more for services than in 1950.

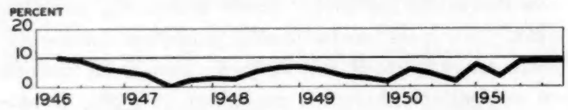
New home construction declined both in terms of dollars spent and in physical units. The total value of

private home construction in 1951 was about 13 per cent below 1950, and the number of new homes started dropped more than 20 per cent. The decline in residential construction resulted mainly from a lower demand reflecting stiffer credit terms, a shrinking supply of mortgage money, and perhaps some readjustment from the extremely high level of 1950.

PERSONAL INCOME, CONSUMPTION, AND SAVING
(Quarterly)



SAVING AS A PER CENT OF DISPOSABLE INCOME



I want to emphasize that more hesitant buying by consumers reflected a greater willingness to save—not a reduction in purchasing power. Consumer purchasing power has continued to rise. Personal income after taxes is running about 6 per cent above a year ago, and consumers have been saving a larger proportion of this disposable income. In 1951, for example, they saved 8 per cent of their income after taxes, as compared to an average of 5 per cent for the period 1946 to 1950. This unusually high level of personal savings probably reflects several factors. It is a natural aftermath to the buying sprees which built up consumer inventories of many goods; a "shortage of shortages" convinced people that goods were in plentiful supply; Regulation W helped curb the demand for selected durable goods; there was an incentive to rebuild liquid asset holdings depleted by the earlier buying waves; and relatively stable prices largely removed the urge to buy before prices went higher.

Business Investment Rises

Business firms increased their investments in 1951. Expenditures for plant and equipment set an all-time record, the total being about 30 per cent above the previous year. Although all major industry groups participated in the expansion, most of it was concentrated in the durable goods sector. Capital outlays of all manufacturing establishments in 1951 were up 50 per cent, but those of transportation equipment other than motor vehicles rose 120 per cent, iron and steel 120 per cent, nonferrous metals 105 per cent, chemicals 65 per cent, and motor vehicles and equipment 45 per cent. There was a heavy concentration of capital outlays in the defense and defense-supporting industries. These were stimulated by defense contracts and by accelerated tax amortization which permits the cost of new plant deemed essential for defense to be written off in five years. By the end of February, certificates permitting accelerated depreciation had been issued for the construction of approximately $15 billion worth of plant facilities.

Third District states—Pennsylvania, New Jersey, and Delaware—have received a substantial amount of defense contracts. Prime defense contracts awarded to business firms in these states from mid-1950 to the end of 1951 totaled $4½ billion—about 10 per cent of all contracts awarded in the United States.

Total business inventories leveled off about the middle of last year and have shown little change since that time. The major part of the inventory build-up was in manufacturing establishments in defense and defense-related industries. Trade inventories—retail and wholesale—reached a peak about the middle of last year and then began to decline. The halt to inventory accumulation was a significant anti-inflationary influence. It removed this source of demand and enabled that portion of output which had been required to build up stocks to go to satisfy the demands of customers.

Government Spending Rises

The defense program was slow in getting under way. During the last twelve months, however, it has been taking increasing amounts of goods and services. The Federal Government purchased about $19 billion more goods and services in 1951 than in 1950, nearly all of the

increase being for defense purposes. In the first part of the year the increase in defense spending was mainly for payrolls, food, clothing, and similar items required by the growing number in the armed forces. Actual expenditures for military hardware did not expand substantially until later in the year.

Even though defense expenditures have risen substantially, they have not been a net inflationary force to date. When the Government takes in more funds than it pays out the net effect is to reduce the amount of money the people have available to spend. On the other hand, if the Government pays out more dollars than it takes in, more money is placed at the disposal of the public. In 1951, Government receipts from taxation were over $1 billion more than expenditures. There was a substantial cash surplus in the first quarter of this year, but there will be a deficit in the second half.

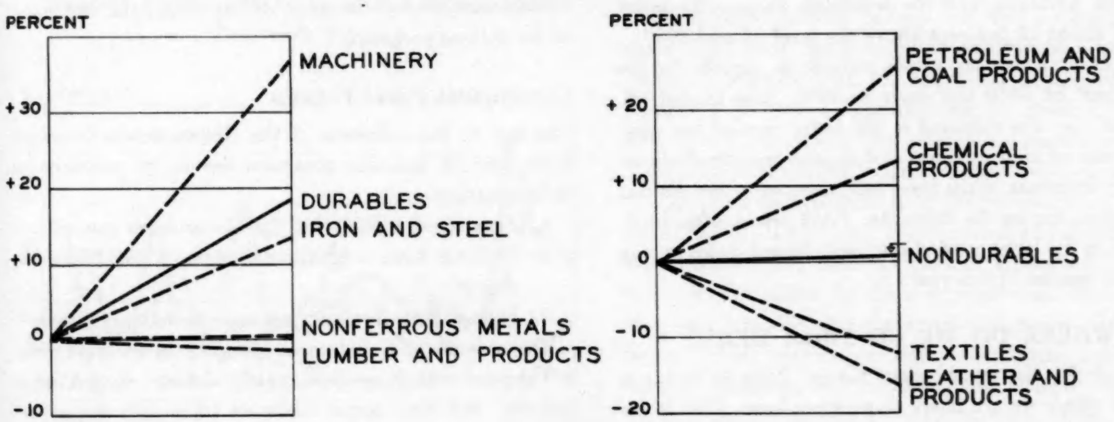
DISPARITIES AMONG INDUSTRIES

All major indexes of business activity have registered gains since Korea. Production, employment, income, consumer expenditures, business expenditures, Government expenditures—all have increased. However, the impact of the defense program has varied considerably among industries and among different types of businesses. Total manufacturing production at the end of 1951 was nearly 10 per cent above mid-1950, primarily because of a larger production of durable goods. Output of durable goods was up about 19 per cent, while that of nondurables was up only 1 per cent. Even in the durable goods field, changes in output were far from uniform. Production of machinery, for example, was up over one-third, and iron and steel and transportation equipment, nearly 15 per cent. The increases were much less in stone, clay, and glass products, and nonferrous metals.

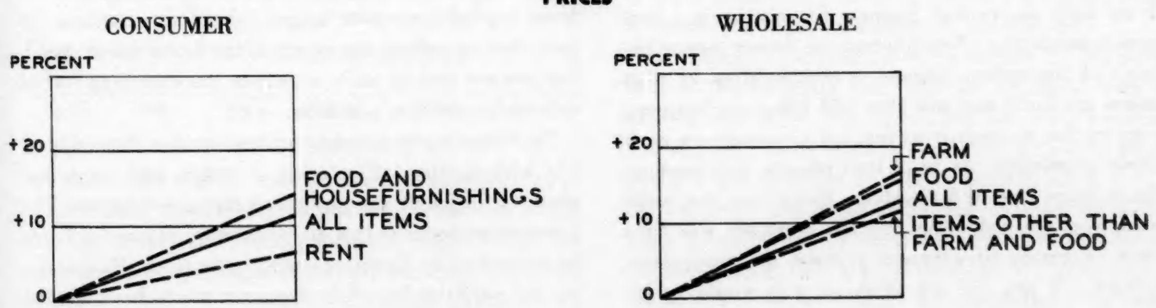
CHANGES IN PRODUCTION AND PRICES

June 1950 to December 1951

PRODUCTION



PRICES



The picture was especially spotty in the nondurable goods field. Defense needs and a high level of civilian demand generated substantial increases, for example, in the production of petroleum, chemical and rubber products. On the other hand, the production of alcoholic beverages, paper, textile and leather products decreased and is considerably below a year ago. These are some of the soft spots.

Price movements also reflected the spotty situation which prevailed, especially during the past year. The prices of practically all products at wholesale rose in the second half of 1950 and in the early part of 1951. Rubber and rubber products, hides and leather products, paper and paper products, farm products, textiles, and chemical products all rose more than 20 per cent from the end of June 1950 to the end of February 1951. During the past year, the prices of most of these products have declined moderately. The commodities which had experienced the sharpest rise in general were those registering the largest declines, mainly hides and leather products, textiles, farm products, rubber products, and chemicals. However, the declines in the past year were not sufficient to offset the previous advances, and the wholesale commodity index is still about 12 per cent above the level of mid-1950.

Prices of consumer goods moved up rapidly in the latter part of 1950 and early in 1951, then leveled off, and the rise was resumed in the latter part of the year. The prices of food products and apparel registered above-average increases, while rent, fuel, electricity, and similar items were among the laggards. Food prices, after leveling off in the latter part of last year, turned down during the first quarter of this year.

WHERE DO WE GO FROM HERE?

So much for the record since Korea. Now let's take a look at where we are likely to go from here. This is the $64-question.

I am fully aware that business forecasting is a hazardous undertaking. Nevertheless, we cannot escape the essence of forecasting, namely, a consideration of what changes are likely and how they will affect our business. To ignore the problem is to forecast no change—a most unlikely possibility. As bank loan officers, you must indulge in some kind of forecasting. Every time you make a loan, you are predicting that the borrower will have income in excess of expenses to meet the repayments scheduled. If you did not think so, you would refuse the loan. Your success as a loan officer, therefore, depends in no small part on how accurately you appraise, not the present condition but the future business prospects of your borrowers. In making this appraisal, it is necessary to look beyond the individual business, because its prospects are influenced greatly by business conditions in general.

There are always imponderables in business forecasting. No one can ever foresee all of the events which are to play a significant part in business and financial developments. But this year the imponderables are greater than usual. Who, for example, can foresee the route and the timetable of foreign aggression? Does Communist strategy for 1952 call for more aggression—another "Korea" —or a peace offensive to get us to cut back our defense program? And last but not least, who among us can foretell what our domestic policies will be in an election year? These are among the unknowns which are certainly not soothing to the soothsayer.

In analyzing the outlook, I want to focus our attention on the prospects in the three major sectors of our economy—Government, business, and consumer. First the Government sector—because of the dominant influence of the defense program.

Government Fiscal Policies

The key to the influence of the Government's financial operations on business prospects lies in the answers to three questions:

1. How much money will the Government spend?
2. Will we have a balanced budget, a surplus, or a deficit?
3. How will the Treasury manage its debt operations?

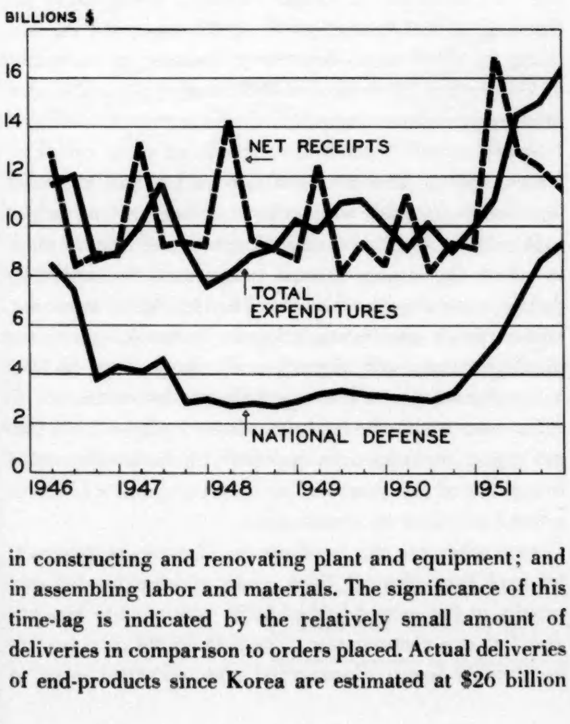
The amount of Government spending in the next year will depend mainly on how rapidly defense expenditures increase, and what action Congress takes with respect to the President's budget recommendations. Thus far, defense expenditures have lagged behind expectations. In part, this lag reflects the nature of the Government spending process and, in part, it reflects the stretching out of defense production schedules.

The Government spending process involves three stages: (1) authorization, (2) placing of orders, and (3) actual payment for goods and services as they are delivered. The Constitution requires that all expenditure of Federal funds be authorized by Congress, authorizations usually specifying the purposes for which payments are to be made, the

amount to be spent, and the persons or agencies authorized to make these expenditures.

Congress acted promptly after the decision was made to resist aggression in Korea. Within a few weeks, large sums were put into the first section of the Government's spending pipe line. Defense expenditures authorized and requested by Congress since Korea now total about $130 billion. More delay was encountered in the second stage of the spending pipe line, namely, the placing of orders. Plans, specifications, and designs must first be prepared and, in some cases, the military authorities were unwilling to freeze existing designs. Of approximately $94 billion authorized and available to date, $71 billion of orders and procurement contracts have been placed. The longest time-lag, however, is usually between the second and third stages in the spending process. Production, especially of the heavy, modern weapons, is a time-consuming process. Actual payment is made only as production progresses and when the finished product is delivered. In the beginning of a defense program, considerable time is consumed in making ready for production—in producing machine tools;

FEDERAL BUDGET RECEIPTS AND EXPENDITURES
(Quarterly Totals)



in constructing and renovating plant and equipment; and in assembling labor and materials. The significance of this time-lag is indicated by the relatively small amount of deliveries in comparison to orders placed. Actual deliveries of end-products since Korea are estimated at $26 billion in comparison with $71 billion of orders and contracts placed.

It is apparent that the volume of defense spending will be closely geared to the amount of military hardware industry will be able and allowed to produce. The present schedule calls for defense expenditures to reach their peak sometime next year. The peak rate is expected to be maintained for a year or more and then begin to decline sometime in 1954. Translated into dollars, defense purchases, now running at an annual rate of about $45 billion, are expected to rise $15-20 billion in the next year. Payments for military "hard goods" such as aircraft, tanks, and guns are expected to treble by this time next year. Total Federal expenditures for the fiscal year beginning next July were placed at $85 billion in the President's budget message. How much Congress will cut these recommendations in an election year only time will tell. To date, the cuts recommended by the House Appropriations Committee affect authorizations more than actual expenditures for the coming fiscal year. It seems certain, however, that substantial economies are possible without impairing the defense effort.

The second question is how will the Government finance these huge expenditures—will there be a balanced budget or a deficit? An $85 billion expenditure program represents in itself a huge demand for goods and services. It will not add to total purchasing power, however, if the Government takes in enough from non-bank sources to pay all of its expenses. Here the prospects are not so good; the "if" is a big one. The President's budget message estimated, on the basis of present legislation, a cash deficit of $10 billion for the next fiscal year. The chances are good, however, that the actual deficit will not be this large. Actual expenditures have been lagging behind the budget estimates, and receipts have usually exceeded the estimates in periods of rising business activity. There is also a possibility that Congress will cut the $85 billion of expenditures recommended by the President.

At present, a cash deficit seems certain for the second half of this calendar year and for the fiscal year beginning next July. This is no time for deficit financing, and steps should be taken to prevent it. A "pay-as-we-go" policy is our first line of defense against inflation. It is the only way the direct inflationary impact of the defense program can be removed. The first step toward balancing the budget is rigid economy in all Government expenditures, both defense and non-defense—all waste

should be eliminated. The second step, if it is necessary, is to raise additional revenue sufficient to balance the budget. High taxes are painful; but inflation is even more painful.

The third question concerns management of the debt. Debt operations—new borrowing and refinancing maturing issues—should be conducted in such a way as not to increase the purchasing power at the disposal of the public. This means that new borrowing, if it becomes necessary, should be from non-bank sources. Non-bank purchases of Government securities reduce the spending power of the public by the same amount the Government's is increased. It is equally important that the refinancing of maturing Government securities be carried out on terms which will not result in an increase in bank holdings of the Government debt. This means that new Treasury securities must be tailored to the market, and not the market to the securities.

Consumer Expenditures

What consumers will do with the large amount of money they are almost certain to have is anybody's guess. Personal incomes, even after payment of taxes, are high; credit is still available on reasonable terms; and large liquid asset holdings are available to be drawn on at will. The prospects are that consumers will have the ability to buy a large amount of goods—their willingness is another matter.

I believe that consumer spending is likely to increase. Some of the stocks of goods built up by consumers during the post-Korean buying sprees should be pretty well used up by now. It appears that more raw materials will soon be available for the production of consumer durable goods. Evidence of a firmer demand for consumer durables is already beginning to emerge. A record level of personal income after taxes, a high percentage of income saved, and accumulated savings indicate that consumers are likely to spend more rather than less.

Business Investment

The prospects for business investment are bright. Recent estimates of the Department of Commerce and the Securities and Exchange Commission indicate total capital expenditures in 1952 of $24 billion, an increase of 4 per cent over 1951. The larger increases are planned by durable goods manufacturers. The only major group reporting a decrease was commercial and miscellaneous establishments. Apparently both ability and willingness to invest are strong; however, there is some apprehension as to whether we shall be caught with excess capacity as soon as defense production reaches its peak and begins to decline. This fear could become a significant retarding force as defense production approaches its peak.

Business investment in inventories is likely to hold fairly steady in contrast to the large increase last year. Manufacturer's inventories, which reflect the accumulation of raw materials for defense contracts, have leveled off in the past few months. Trade inventories, on the other hand, have been declining since mid-1951. Current stocks-to-sales ratios indicate that the major part of the readjustment in trade inventories may have been completed.

IMPLICATIONS FOR BANK LENDING

First, let me summarize, very briefly, the impact of the defense program launched in mid-1950. The initial impact was indirect. The first stage was characterized by waves of scare buying by consumers and businessmen, a rapid expansion of credit, and a sharp rise in prices. Government spending was not a source of inflation in this period. The second stage, which began about a year ago, was one of precarious stability. More hesitant buying by consumers; a virtual cessation of inventory accumulation; and restrictions on credit, especially the new policy of the Federal Reserve in limiting its purchases of Government securities, tended to offset the substantial increase in defense expenditures and a record volume of business capital expenditures. Some of these offsetting forces, such as hesitant consumer buying and inventory liquidation, probably will not be as strong this year as last.

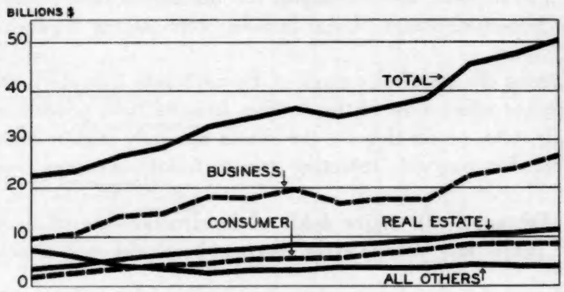
It may be that we shall soon move into a third stage in which the strong upward pressure of an expanding defense program, possibly intensified by deficit financing, will outweigh any downward pulls in the private sector of the economy. Of one thing we can be sure, as long as purchasing power is ample while producers are unable to increase output, the threat of inflation will continue. I do not expect any substantial amount of inflation during the remainder of this year, but we must recognize that fertile ground exists for its germination.

Now what are the implications of business prospects for bank loan officers? Bank credit, which expanded very rapidly in the second half of 1950, continued to rise last year but at a reduced rate. The bulk of the increase was in business loans. Commercial and industrial loans of

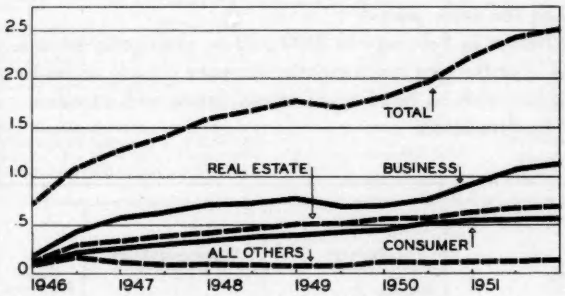
Third District member banks rose nearly 50 per cent from June 30, 1950 to the end of 1951, real estate loans 18 per cent, and consumer loans 11 per cent. The rate of loan expansion in this district has been about the same as that for the country as a whole. A major part of the business loan expansion last year was to defense and defense-related industries. The prospects are for a continued active demand for credit. Business firms are likely to require less credit for inventories and receivables, but more for capital expenditures.

LOANS OF ALL MEMBER BANKS

United States



Third District



A second implication for bank lending is that caution is in order. The bulk of troublesome loans usually originates in good times. For example, studies have shown that mortgage loans made in periods of real estate expansion and rising real estate costs have resulted in a much larger proportion of foreclosures than those made in periods of low real estate activity and low prices. Reports from the field indicate that loan repayments are slowing up somewhat and that bankers are maintaining closer contact with their borrowers. As the business situation becomes more vulnerable, loans already held should be given closer supervision and applications should be screened more carefully.

A third implication is that although the general business outlook is good, prospects vary widely for individual firms and industries. The record since Korea shows that weak spots existed even during the boom period. Some industries are benefited by the defense program; others are pinched. In view of the soft spots which are likely to exist, it is important to examine carefully the prospects of the industry as well as of the individual business requesting the loan.

Finally, I would urge you to consider the broader as well as the specific effects of your loans. As you know, the commercial banks, through their loans and investments, create the major part of our money supply. We must allocate our credit to the essential rather than the non-essential uses. In addition, we must limit the total amount of credit granted even for productive purposes when industry cannot turn out more goods. More credit and more money without more goods mean higher prices —not more production. I know that through the Voluntary Credit Restraint Program you have been exercising restraint along these lines. That is all to the good. To the extent we exercise self-discipline, other forms of restraint will be unnecessary.

It is evident from the foregoing that I am essentially optimistic about business prospects for the next nine months. This is my position despite the statement that "a forecaster is a man who avoids all of the minor inaccuracies as he plunges ahead to the grand fallacy." Such optimism as I have displayed is the result of not only reasoning in the foregoing analysis but also a faith in the *resourcefulness and dynamism of business management* in overcoming its difficulties when given a reasonable chance to do so.

Additional copies of this issue are available upon request.

CURRENT TRENDS

Business activity in the Third Federal Reserve District during February was steady; most indexes showed little or no change from the previous month.

Department store sales, seasonally adjusted, remained steady from January to February. The volume of business, however, was below a year ago when consumer buying was in full force. Sales of piece goods and household textiles, and homefurnishings were especially weak.

A decline during February in the consumer price index for Philadelphia was the largest for any month since January 1950. It reflected decreases in the cost of food, clothing, and housefurnishings. Local families were paying 2 per cent more for cost-of-living items than a year ago.

Military contracts continued to be an important factor sustaining the physical output of Pennsylvania manufacturing plants during February. The high volume of defense work helped to offset most of the declines in some hard goods lines and the somewhat depressed soft goods industries. Consequently, total production for the month was only slightly under a year earlier. Compared with 1950, employment was also lower, but payrolls, reflecting greater hourly earnings, were higher.

The value of construction contract awards declined again in February. All major fields of construction shared in the drop. Residential and nonresidential awards remained well below last year's levels, but public works and utilities recorded a gain of 44 per cent.

Business loans of weekly reporting member banks in the Third Federal Reserve District rose by about 2 per cent in the five weeks ended March 26 as borrowing by manufacturers of metals and metal products continued to increase. Last year business loans rose considerably more—about 8 per cent—in the same period.

The nation's privately held money supply declined about $2 billion in February to $183 billion, principally because of a seasonal transfer of funds from private to Treasury accounts. For the past seven months currency outside of banks has exceeded year-ago levels by about $1 billion. The defense program with its build-up of armed forces and attendant personnel movements has been a strong factor expanding currency in circulation.

SUMMARY	Third Federal Reserve District Per cent change			United States Per cent change		
	February 1952 from		2 mos. 1952 from year ago	February 1952 from		2 mos. 1952 from year ago
	mo. ago	year ago		mo. ago	year ago	
OUTPUT						
Manufacturing production	0*	− 1*	− 1*	+ 1	0	0
Construction contracts	− 5	−24	−22	+ 2	−11	−11
Coal mining	−14	−13	− 9	−10	+ 4	0
EMPLOYMENT AND INCOME						
Factory employment	0*	− 3*	− 3*	0	− 3	− 2
Factory wage income	0*	+ 3*	+ 3*	.....	.....	.....
TRADE**						
Department store sales	0	− 8	− 8	− 3	− 9	− 9
Department store stocks	− 3	−12	.....	− 2	−10	.....
BANKING (All member banks)						
Deposits	0	+ 2	+ 2	− 1	+ 4	+ 5
Loans	+ 1	+ 7	+ 8	0	+ 8	+ 8
Investments	0	0	− 1	− 1	+ 4	+ 4
U.S. Govt. securities	0	− 2	− 3	− 1	+ 4	+ 4
Other	0	+ 7	+ 7	+ 1	+ 7	+ 7
PRICES						
Wholesale	.....	.....	.....	0	− 3	− 3
Consumers	− 1†	+ 1†	+ 3†	− 1	+ 2	+ 3
OTHER						
Check payments	−13	+ 6	+ 4	− 8	+12	+ 6
Output of electricity	− 1	+ 1	+ 3	.....	.....	.....

*Pennsylvania
**Adjusted for seasonal variation. †Philadelphia.

LOCAL CONDITIONS	Factory* Employment Per cent change Feb. 1952 from		Factory* Payrolls Per cent change Feb. 1952 from		Department Store Sales Per cent change Feb. 1952 from		Department Store Stocks Per cent change Feb. 1952 from		Check Payments Per cent change Feb. 1952 from	
	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago	mo. ago	year ago
Allentown	+1	0	0	+ 4	.....	.....	.....	.....	−11	+ 4
Harrisburg	0	+5	0	+12	.....	.....	.....	.....	−10	+13
Lancaster	0	−4	+2	− 2	−8	−14	+13	− 8	− 3	+ 5
Philadelphia	+1	−1	+2	+ 5	−2	− 8	+10	−14	−12	+ 6
Reading	−1	−8	−2	−11	0	−10	+ 8	−13	− 9	+ 1
Scranton	0	−9	+2	− 6	.....	.....	.....	.....	−11	+ 6
Trenton	.....	.....	.....	.....	−1	− 6	+ 9	− 9	− 4	+11
Wilkes-Barre	0	−3	+2	+ 3	−1	−13	+ 8	−25	− 8	+ 6
York	+1	−3	0	0	+2	− 6	+10	−11	−11	− 9

*Not restricted to corporate limits of cities but covers areas of one or more counties.

MEASURES OF OUTPUT

	Per cent change: Feb. 1952 from month ago	Feb. 1952 from year ago	2 mos. 1952 from year ago
MANUFACTURING (Pa.)	0	− 1	− 1
Durable goods industries	0	+ 4	+ 4
Nondurable goods industries	0	− 7	− 8
Foods	− 3	− 2	− 3
Tobacco	− 2	− 2	− 1
Textiles	0	−21	−20
Apparel	+ 2	−14	−13
Lumber	− 1	−11	−12
Furniture	0	− 3	− 4
Paper	+ 3	− 9	−11
Printing and publishing	+ 3	+ 1	0
Chemicals	+ 2	+ 2	+ 2
Petroleum and coal products	− 2	− 2	− 1
Rubber	− 3	+ 9	+ 8
Leather	− 1	−13	−13
Stone, clay and glass	+ 1	− 8	− 9
Primary metal industries	− 1	+ 6	+ 6
Fabricated metal products	+ 1	− 3	− 3
Machinery (except electrical)	0	+ 2	+ 3
Electrical machinery	− 1	+ 6	+ 6
Transportation equipment	+ 2	+38	+34
Instruments and related products	0	+ 4	+ 4
Misc. manufacturing industries	− 1	−17	−16
COAL MINING (3rd F. R. Dist.)*	−14	−13	− 9
Anthracite	−15	−13	− 9
Bituminous	− 6	− 4	− 4
CRUDE OIL (3rd F. R. Dist.)**	− 8	+ 2	0
CONSTRUCTION—CONTRACT AWARDS (3rd F. R. Dist.)†	− 5	−24	−22
Residential	− 5	−43	−40
Nonresidential	− 5	−34	−35
Public works and utilities	− 5	+44	+50

*U.S. Bureau of Mines.
**American Petroleum Inst. Bradford field.
†Source: F. W. Dodge Corporation. Changes computed from 3-month moving averages, centered on 3rd month.

EMPLOYMENT AND INCOME

Pennsylvania Manufacturing Industries* Indexes (1939 avg.=100)	Employment: Feb. 1952 (Index)	Employment: Per cent change from mo. ago	Employment: Per cent change from year ago	Payrolls: Feb. 1952 (Index)	Payrolls: Per cent change from mo. ago	Payrolls: Per cent change from year ago	Average Weekly Earnings: Feb. 1952	Average Weekly Earnings: % chg. from year ago	Average Hourly Earnings: Feb. 1952	Average Hourly Earnings: % chg. from year ago
All manufacturing	137	0	− 3	402	0	+ 3	$65.91	+ 6	$1.63	+ 5
Durable goods industries	169	0	+ 1	474	−1	+ 8	72.52	+ 6	1.75	+ 5
Nondurable goods industries	106	0	− 9	308	+1	− 6	55.64	+ 3	1.44	+ 4
Foods	119	−3	− 5	298	−2	+ 5	55.88	+11	1.38	+ 7
Tobacco	90	+1	0	243	−1	+ 3	35.56	+ 3	.96	+ 5
Textiles	70	+1	−18	211	−1	−21	53.74	− 4	1.40	0
Apparel	125	+1	− 9	370	+3	−12	41.70	− 3	1.17	+ 2
Lumber	145	−2	−11	385	0	− 8	46.26	+ 4	1.13	+ 4
Furniture and lumber products	129	+2	− 7	415	0	+ 2	59.17	+10	1.32	+ 6
Paper	139	+3	− 7	426	+5	− 2	66.47	+ 6	1.57	+ 9
Printing and publishing	117	0	− 2	313	+2	+ 4	75.72	+ 6	1.94	+ 4
Chemicals	147	+1	− 3	420	+2	0	68.07	+ 3	1.61	+ 2
Petroleum and coal products	153	−1	− 1	418	−2	+ 4	82.42	+ 4	2.06	+ 6
Rubber	242	−1	0	762	−3	+19	78.07	+19	1.93	+13
Leather	84	+1	−10	233	+1	− 8	47.50	+ 1	1.22	+ 3
Stone, clay and glass	131	−1	− 8	374	+1	− 5	65.38	+ 4	1.64	+ 4
Primary metal industries	144	0	+ 4	402	−2	+ 8	78.03	+ 4	1.92	+ 2
Fabricated metal products	175	+1	− 5	502	+1	− 1	68.07	+ 4	1.64	+ 4
Machinery (except electrical)	244	0	+ 2	720	0	+ 8	74.67	+ 5	1.72	+ 6
Electrical machinery	277	0	+ 3	677	−2	+14	68.46	+10	1.67	+ 8
Transportation equipment	182	+1	+24	518	+3	+46	80.89	+17	1.92	+ 5
Instruments and related products	186	0	+ 2	560	0	+ 8	68.90	+ 5	1.64	+ 4
Misc. manufacturing industries	125	0	−17	333	−2	−15	54.57	+ 2	1.30	+ 2

*Production workers only.

TRADE

Third F. R. District — Indexes: 1947–49 Avg.=100, Adjusted for seasonal variation	Feb. 1952 (Index)	Per cent change: Feb. 1952 from month ago	Feb. 1952 from year ago	2 mos. 1952 from year ago
SALES				
Department stores	110	0	− 8	−8
Women's apparel stores	88	−11	− 6	−5
Furniture stores	......	+ 7*	+ 4*	+9*
STOCKS				
Department stores	112p	− 3	−12	......
Women's apparel stores	104	− 3	−11	......
Furniture stores	......	+ 6*	−11*	......

Recent Changes in Department Store Sales in Central Philadelphia	Per cent change from year ago
Week ended March 15	− 7
Week ended March 22	− 8
Week ended March 29	+21
Week ended April 5	+14

*Not adjusted for seasonal variation. p—preliminary.

Departmental Sales and Stocks of Independent Department Stores Third F. R. District	Sales: % chg. Feb. 1952 from year ago	Sales: % chg. 2 mos. 1952 from year ago	Stocks (end of month): % chg. Feb. 1952 from year ago	Stocks: Ratio to sales (months' supply) February 1952	Stocks: Ratio to sales (months' supply) February 1951
Total—All departments	− 5	− 9	−13	3.7	4.1
Main store total	− 7	−11	−12	4.1	4.3
Piece goods and household textiles	− 8	−20	−15	4.7	5.0
Small wares	+ 4	− 2	− 8	4.1	4.6
Women's and misses' accessories	− 2	− 6	−11	4.1	4.5
Women's and misses' apparel	− 3	− 4	− 8	2.9	3.0
Men's and boys' wear	− 9	− 8	−13	5.1	5.3
Homefurnishings	−14	−18	−14	4.2	4.2
Other main store	0	− 7	−17	3.8	4.5
Basement store total	0	− 4	−21	2.4	3.1
Domestics and blankets	+ 3	−14	−35	2.5	4.0
Small wares	−11	− 7	−16	2.8	3.0
Women's and misses' wear	+ 2	− 1	−17	1.9	2.4
Men's and boys' wear	− 1	0	−29	2.7	3.7
Homefurnishings	− 1	−10	−19	2.9	3.5
Shoes	−10	− 3	−13	4.1	4.0
Nonmerchandise total	+ 2	0	......	......	......

CONSUMER CREDIT

Sale Credit Third F. R. District	Sales		Receivables (end of month)
	% chg. Feb. 1952 from year ago	% chg. 2 mos. 1952 from year ago	% chg. Feb. 1952 from year ago
Department stores			
Cash	− 2	− 5	
Charge account	− 6	−11	+4
Instalment account	0	− 9	−8
Furniture stores			
Cash	+ 1	− 5	......
Charge account	−11	−11	......
Instalment account	+13	+10	0

Loan Credit Third F. R. District	Loans made		Loan balances outstanding (end of month)
	% chg. Feb. 1952 from year ago	% chg. 2 mos. 1952 from year ago	% chg. Feb. 1952 from year ago
Consumer instalment loans			
Commercial banks	+45	+40	− 5
Industrial banks and loan companies	+37	+44	+12
Small loan companies	+21	+19	+16
Credit unions	+33	+18	+ 5

PRICES

Monthly Wholesale and Consumer Prices	Feb. 1952 (Index)	Per cent change from	
		month ago	year ago
Wholesale prices—United States (1947-49=100)	113	0	−3
Farm products	108	−2	−8
Foods	110	0	−3
Other	114	0	−2
Consumer prices (1935-39=100)			
United States	188	−1	+2
Philadelphia	188	−1	+1
Food	225	−2	+2
Clothing	199	0	−2
Rent	129		+5
Fuel	154	0	+1
Homefurnishings	217	−2	−3
Other	171	0	+1

Weekly Wholesale Prices—U.S. (Index: 1947-49 average=100)	All commodities	Farm products	Processed foods	Other
Week ended March 11	111.6	107.0	109.0	113.1
Week ended March 18	111.8	108.1	109.3	113.2
Week ended March 25	111.7	108.1	108.9	113.0
Week ended April 1	111.8	107.6	108.3	113.4
Week ended April 8	111.7	107.6	108.0	113.4

Source: U.S. Bureau of Labor Statistics.

BANKING

MONEY SUPPLY AND RELATED ITEMS United States (*billions $*)	Feb. 27 1952	Changes in—	
		four weeks	year
Money supply, privately owned	183.2	−1.9	+8.9
Demand deposits, adjusted	95.5	−2.2	+4.9
Time deposits	62.1	+ .3	+3.0
Currency outside banks	25.6	......	+1.0
Turnover of demand deposits	21.4*	+3.9*	− .5*
Commercial bank earning assets	132.2	− .5	+7.2
Loans	57.5	+ .1	+4.0
U.S. Government securities	61.4	− .7	+2.3
Other securities	13.3	+ .1	+ .9
Member bank reserves held	19.7	− .3	+ .6
Required reserves (estimated)	19.2	− .2	+ .9
Excess reserves (estimated)	.5	− .1	− .3

Changes in reserves during 4 weeks ended February 27 reflected the following:

	Effect on reserves
Net payments to the Treasury	−.5
Decrease in Reserve Bank holdings of Governments	−.2
Increase in Reserve Bank loans	+.2
Gold and foreign transactions	+.1
Other Reserve Bank credit	+.1
Change in reserves	−.3

* Annual rate for the month and per cent changes from month and year ago at leading cities outside N. Y. City.

OTHER BANKING DATA	March 26 1952	Changes in—	
		five weeks	year
Weekly reporting banks—leading cities			
United States (*billions $*):			
Loans—			
Commercial, industrial and agricultural	21.4	+ .2	+ 2.1
Security	1.8	0	− .4
Real estate	5.7	0	+ .3
To banks	.4	− .1	0
All other	6.0	......	+ .1
Total loans—gross	35.3	+ .1	+ 2.1
Investments	39.0	+ .2	+ 1.7
Deposits	84.5	+1.3	+ 4.6
Third Federal Reserve District (*millions $*):			
Loans—			
Commercial, industrial and agricultural	814	+ 17	+ 72
Security	42	0	− 7
Real estate	131	− 3	− 8
To banks	14	+ 11	+ 4
All other	409	+ 9	+ 17
Total loans—gross	1,410	+ 34	+ 78
Investments	1,544	− 15	− 14
Deposits	3,340	+ 52	+113
Member bank reserves and related items			
United States (*billions $*):			
Member bank reserves held	20.3	+ .3	+ 1.3
Reserve Bank holdings of Governments	22.5	+ .1	− .1
Gold stock	23.3	+ .2	+ 1.4
Money in circulation	28.3	− .1	+ 1.3
Treasury deposits at Reserve Banks	......	− .5	− 1.0
Federal Reserve Bank of Phila. (*millions $*):			
Loans and securities	1,393	+ 6	− 52
Federal Reserve notes	1,723	− 6	+ 95
Member bank reserve deposits	941	+ 2	+ 42
Gold certificate reserves	1,295	− 36	+104
Reserve ratio (%)	47.8%	− .8%	+ 3.1%

in—

year

+8.9

+4.9
+3.0
+1.0

– .5*

+7.2

+4.0
+2.3
+ .9

+ .6

+ .9
– .3

ago

in—

year

2.1
.4
.3
0
.1

2.1
1.7
4.6

72
7
8
4
17

78
14
113

1.3
.1
1.4
1.3
1.0

52
95
42
104
3.1%